

July 13, 2011

To: Members of the Board of Retirement

From: Dale Amaral – Chair

Subject: Summary of the July 13, 2011 Investment Committee Meeting

The Investment Committee met on Wednesday, July 13, 2011 at 9:00 a.m. The Committee members present were Dale Amaral, Annette Cain-Darnes, Keith Carson, George Dewey, Donald White and George Wood. Also present were Alternate Safety members David Safer and Darryl Walker. Members of the Staff present were Vincent Brown – Chief Executive Officer, Kathy Foster – Assistant Chief Executive Officer, Robert Gaumer – Chief Counsel, J.P. Singh – Chief Financial Officer, Betty Tse – Chief Investment Officer and Catherine Walker – Assistant Chief Executive Officer.

ACTION ITEMS

Action Items: Matters for discussion and possible motion by the Committee

1. Discussion of and Possible Motion to Adopt the Amended Real Estate Strategic Plan for ACERA's Real Estate Portfolio.
 - As the proposed Amended Strategic Real Estate Plan (Plan) had been discussed previously, in the June 2011 Investment Committee Meeting (ICM), the Committee confirmed that there was no change to the Asset Allocation section under the Investment Objective of the Plan with a continued focus on equity real estate investments. The Committee also confirmed that the NCREIF Property Index (NFI) will be replaced by the NCREIF Fund Level Open-End Diversified Core Equity Index (ODCE) and that various real estate investment strategies described as , “Stable, Enhanced, and High Return” will be replaced with the more current terms, “Core, Value-Added, and Opportunistic.”
 - After discussion, George Wood moved, seconded by Annette Cain-Darnes, to recommend the adoption of the amended Real Estate Strategic Plan for ACERA's Real Estate Portfolio to the Board. The motion passed unanimously.
2. Discussion of and Possible Motion to Adopt the 2011 Investment Plan for ACERA's Real Estate Portfolio
 - The Committee noted that the 2011 Investment Plan for ACERA's Real Estate Portfolio had been discussed previously in the June 2011 ICM.
 - Annette Cain-Darnes moved, seconded by George Dewey, to recommend the adoption of the 2011 Investment Plan for ACERA's Real Estate Portfolio to the Board. The motion passed unanimously.
3. Discussion of and possible motion to revise the account benchmarks for the ACERA's active U.S. public securities managers

- A representative of Strategic Investment Solutions, Inc. (SIS) presented a benchmark review for ACERA's active U.S. public securities managers. SIS recommended no changes, but did suggest that Bivium's account benchmark be considered for a possible reduction after experience with the manager's new portfolio structure which was implemented in May 2011. Some Committee members suggested that investment managers interested in a benchmark change should make a presentation to the Committee and request a change directly. After discussion, no motion was made.

Information Items:

1. Annual review of PRISA and PRISA II

- Representatives from Prudential Real Estate Investors presented an overview of the current U.S. economic and real estate market outlook. They also discussed the investment strategies, performances, capital flows, debt maturities and 2011 return expectations of PRISA (a core fund) and PRISA II (a value-added fund). The representatives also addressed questions of the Committee members.
- As of 3/31/11, PRISA's one-year gross return of 25.28% outperformed the account benchmark NPI by 9.25%. The net asset value of ACERA's PRISA account was \$32.0 million. PRISA has been in compliance with ACERA's reporting requirements since inception.
- As of 3/31/11, PRISA II's one-year gross return of 30.66% outperformed the account benchmark NPI + 150 bps by 13.13%. The net asset value of ACERA's PRISA II account was \$29.6 million. PRISA II has been in compliance with ACERA's reporting requirements since inception.

2. Oral status report on proposed fee reductions for ACERA's consultants.

- Staff reported on its investment consultant fee reduction efforts. Fee reductions for four consultants will be implemented as of July 1, 2011. The total net annual savings of Staff's efforts is \$39,035.00, which represents a 4.98% decrease in consulting fees. Together with Staff's efforts to reduce investment managers' fees, all total fee reductions are estimated to be almost \$3 million annually.

3. Oral status report on ACERA's proposed PEARLS and Real Estate Reporting/Cash Management Service – Private Edge

- Upon completion of successful contract negotiations, Staff will utilize State Street Bank's Private Edge services to assist with record-keeping, monitoring, managing capital calls/distributions and management fees for ACERA's Private Equity and Alternative Investments, and for its Real Estate investments. Staff expects to be able to begin using the service by July 31, 2011.

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RECOMMENDATION

The Committee recommends, and I move, that the Board adopt the amended Real Estate Strategic Plan for ACERA's Real Estate Portfolio.

The Committee recommends, and I move, that the Board adopt the 2011 Investment Plan for ACERA's Real Estate Portfolio.

FUTURE DISCUSSION ITEMS

None

TRUSTEE/PUBLIC INPUT

None

ESTABLISHMENT OF NEXT MEETING DATE

August 10, 2011 at 9:00 a.m.

ADJOURNMENT

The meeting adjourned at 10:45 a.m.